

The University of Chicago

CENTRAL VERSUS
LOCAL RESPONSIBILITY FOR
UNEMPLOYMENT RELIEF

A PART OF A DISSERTATION SUBMITTED TO
THE FACULTY OF THE DIVISION OF THE
SOCIAL SCIENCES IN CANDIDACY FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY

DEPARTMENT OF ECONOMICS
SEPTEMBER, 1945

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DANIEL SCHEINMAN

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CHAPTER IX

CONCLUSIONS

During the decade of the nineteen thirties the United States experienced the most extensive activity in public relief in its history. Between 10 and 25 per cent of its population was receiving unemployment relief at any one time, and it is estimated that almost half of its population was on the rolls at some time or other during the period 1933-1940. More than twenty billion dollars was spent for unemployment relief during this eight-year period, a greater expenditure than for any other governmental function. For a nation that has prided itself on its "individualism" to have engaged in such extensive public relief activity is a phenomenon worthy of close attention, not only as an historical incident, but also for the many changes it may have effected in the structure of the economy.

To many people unemployment relief is regarded only as a symptom of a temporary maladjustment in the economy and is considered essential so long as unemployment persists. These people would seek to cure the maladjustment by other economic measures and would consider relief of only minor significance. With never more than an estimated half of all those unemployed on the relief rolls at any one time and a reduction in national income from eighty-two billion dollars in 1929 to forty billion dollars in 1932, an expenditure of two, three, or four billion dollars for relief is considered of little consequence¹, and its effects on

¹For an interesting example of this point of view, see the speech by Mr. Ewan Clague of the Federal Social Security Board, Massachusetts Association of Relief Officers, Annual Conference, April 13 and 14, 1939, p. 11.

the national economy occasion no great concern from this point of view.

Another group of persons regards relief, though on a somewhat diminished scale, as inevitable in what they characterize as our "declining" economy. Those who accept the theory of a "declining" economy point to the decline in population growth, the exhaustion of opportunities for territorial expansion, the absence of investment opportunities, and the experience of the nineteen thirties, as evidence that our economy is stagnant or declining and that private capitalism cannot absorb the available labor supply.¹ In the opinion of this group, full employment of the labor supply can be achieved in a "declining" economy only by expansion of public works and the employment thereon of those who cannot be employed in private industry.

Still another group emphasizes the failure of the government to adopt appropriate recovery policies, opposing or reserving its decision on the "declining" economy theory. An example of this point of view is found in the views expressed by John. H. Williams. In an address before the American Economic Association in December, 1941, Williams made the following comment:

Whether the pump-priming policy could be successful is another question. As I said in my paper last year, it was really never tried. There is no evidence that the Administration, as distinct from some persons within it and some economists offering advice from the outside, even had a conscious interest in fiscal policy as an instrument of recovery prior to the new depression in 1938. Government spending was primarily for relief and was regarded mainly as the unavoidable accompaniment of unemployment until recovery could be achieved by other means. I have been inclined to agree with those who hold that relief expenditures do not reach down far enough into the economic process to afford much leverage. Public works

¹Hansen, Fiscal Policy and Business Cycles; Henry Hilgard Villard, Deficit Spending and the National Income (New York: Farrar and Rinehart, 1941); Oscar Lange, "Is the American Economy Contracting?", American Economic Review, XXIX (September, 1939), 503-513.

expenditures, if they could be adjusted to the business cycle, would probably be more effective, . . . a further important consideration is that if pump-priming is to be seriously attempted in the future, it must be done in an atmosphere that is favorable to "business confidence" and must give attention to the other economic conditions, including the behavior of costs and prices and the effects of taxation on investment as well as on consumption, which bear upon the revival of output and employment under private enterprise.¹

During the latter part of the nineteen thirties a controversy raged between those who accepted the theory of a "declining" economy and those who believed that recovery was possible but that the measures taken to effect recovery were inappropriate and tended to perpetuate depression and the necessity for unemployment relief. Surely, the measures taken to effect recovery from the depressions of the nineteen thirties were unlike the emphasis on self-correction during previous depressions; and it is not impossible that some relationship may have existed between the measures taken and the failure of the recovery effort. In 1940 approximately nine million persons were still unemployed.

An analysis of the unemployment relief programs in operation during the nineteen thirties reveals that in many respects they went beyond the mitigation of physical suffering and, in so doing, hampered economic recovery.

Few would question the necessity for a public relief program during a prolonged depression, when millions are unemployed. Many would question the desirability of providing a relief standard which is so attractive as to remove incentive to reemployment.

Traditionally, the Elizabethan principle of "less eligibility"--that the condition of relief recipients should be made

¹John H. Williams, "The Implications of Fiscal Policy for Monetary Policy and the Banking System, American Economic Review, XXXII (March, 1942), 239-240. Another example of this point of view is found in Charles O. Hardy, "Fiscal Policy and the National Income: A Review," American Economic Review, XXXII (March, 1942), 103-110.

less eligible than that of the independent worker--has been the guiding policy of public relief. In some cases, the income level of the independent worker may be so low as to require a relief standard above this level. Supplementary grants to independent workers have been necessary. It has been recognized that, on occasion, even a low relief standard serves as a deterrent to reemployment. Some balance must be achieved between a relief standard which mitigates physical suffering and one which unduly impedes reemployment. In the final analysis the economic appropriateness of a relief standard can be satisfactorily judged only by the extent of unemployment to be tolerated.

Because of varying economic conditions among localities, even during a serious depression, and because relief standards reflect varying social attitudes, the determination of relief standards and the entire responsibility for the performance of the function of public relief has traditionally been lodged with the local units of government.

The experience with public relief during the nineteen thirties reflects a radical departure from traditional relief policies. The severity of the depression and the volume of unemployment and distress made complete reliance upon local responsibility impractical. The fiscal resources of superior units of government were required. Had the fiscal structures of federal, state and local governmental units been geared for such a contingency, financial assistance by the federal and state governments might have been sufficient and local responsibility, including local determination of relief standards, might have been retained. Instead, the federal and state governments, by intensive control over the method and manner of the relief funds distributed, extended their influence over the administration of the entire relief

program, including the determination of relief standards. Local responsibility, generally, gave way to central responsibility and higher relief standards based on maintaining "prevailing wages" and providing "adequacy" were substituted for the traditional "less eligibility" principle.

The use of grants-in-aid by the Federal government under the FERA and the requirement that a central State agency be responsible for the distribution, or the supervision of local distribution of these grants, led to the establishment of relief standards which, in many cases, removed the incentive to reemployment. The use of an "adequate-diet-at-minimum-cost" recommended by the Federal government, and urged by many State governments, resulted in the adoption of relief standards above the income levels of many independent families.

The shift from the FERA grant-in-aid program to the Federal Works Program divided responsibility for unemployment relief between the Federal government and the States on the basis of employment and non-employment on the Federal Works Program. The Federal government assumed complete responsibility for the Federal Works Program, leaving the care of those not employed on the Works Program to the care of the States. In addition, the Federal government continued responsibility for the NYA, CCC and Federal Surplus Commodities programs. The Federal government also assisted by the adoption of the Social Security program, which provided grants-in-aid for Old Age Assistance, Aid to the Blind and to Dependent Children and contributory Old Age Benefit and Unemployment Compensation programs.

The Federal Works Program was a Federally-financed and administered program. The only contribution from State and local governmental units was in the form of sponsors' contributions to

projects undertaken, either in the form of cash or materials. This contribution amounted to approximately 20 per cent of the cost of the projects undertaken. While some variation in "security" wage-rates was established, based on skill and geographical location, during most of the period of its existence these wage-rates were based on "prevailing" rates. "Security" wage-rates had no relationship to relief needs. As a result the wages paid were in many cases above those which the recipients had previously received or could anticipate receiving in private industry. Moreover, the hours of work on the WPA program were much less than generally prevailed in private employment; and many of those employed by the WPA found opportunity to supplement their WPA earnings by part-time employment in private industry. Also, when earnings on WPA employment were below what an individual could receive as a General Relief allowance (which was based on family composition and needs), supplementary assistance was generally available from the General Relief program. The relative security of WPA employment (not until 1939 were WPA employees required to be removed from the rolls after eighteen consecutive months of employment) provided another advantage over employment in private industry.

Another defect of the Federal Works Program, as well as of the NYA, CCC and Federal Surplus Commodities programs, was the dual nature of its function. It was not clear whether it was primarily a work-program or a relief program. While there is much to be gained and much that is socially desirable in a work program for relief recipients--traditionally work has always been required of relief recipients--generally the work aspect has been subordinated to the relief aspect of such a program. The WPA, in many respects, subordinated its relief aspect to its work aspect. Hence, while its defects as a relief program may be attributed to its work-pro-

gram aspect it was defective both as a work-program and as a relief program.

The public works program of the FWA, operated by contract, and drawing its labor from the open market on the basis of ability, was greatly superior to the work-program of the WPA. As a relief program the WPA created many inequities among relief recipients and created great financial and administrative difficulties in the operation of the General Relief program by the States and local units of government. Federal responsibility for unemployment relief may be regarded as unsatisfactory in many respects.

State and local responsibility for General Relief--relief to those not employed on the Federal Works Program--provided great variations in the division of responsibility. The influence of the FERA persisted in many States even after Federal grants-in-aid for relief were withdrawn. Generally, however, considerable decentralization of responsibility occurred through the transfer of part of the financial and administrative responsibility to the local governmental units. An intensive analysis of the experience of three States--Massachusetts, Pennsylvania and Illinois--provides us with examples of local, central (State) and joint (State-local) responsibility for this function.

In Pennsylvania, the State government assumed complete financial and administrative responsibility for General Relief, or General Assistance, as it is called. This was merely a continuation of the program in operation under the FERA except that Federal grants-in-aid were no longer available and all the funds were provided by the State government. In 1937 the State government placed all public assistance programs, including General Relief, Old Age Assistance, Aid to the Blind and Aid to Dependent Children programs under a newly created Department of Public Assistance and

the funds for all these programs were provided by the State government.

Central responsibility for General Assistance (Relief) in Pennsylvania provided efficient administration in that competent personnel, selected on a merit basis and relieved from local political pressures, was in a position to carry out policies uniformly and efficiently. All the experience of a State Department, acquired from all parts of the State and from contacts with other States, could be and was utilized in the administration of General Assistance in every county of the State. As compared with conditions in Pennsylvania, improvement in the administration of General Relief in Illinois, under a system of joint responsibility, was a slow process, depending on the give and take between a State supervisory agency, reluctant to encroach on the domain of local government, and numerous locally-elected officials responsible for the administration of the General Relief program. In Massachusetts the absence of a State agency, functioning in at least a supervisory capacity, left local relief officials to their own resources and provided no channel for the transfer of experience and advice, except in an indirect way (through the other public assistance programs that were administered locally by the same officials but under the supervision of a State department). The advantages of a State agency to coordinate public assistance activities of Federal, State and local governments were also evident, at least so long as the Federal government assumed responsibility for so large a part of the public assistance burden.

It was the extent of authority exercised by the State agency that constituted the crux of the problem of central versus local responsibility. In Pennsylvania the General Assistance program was the responsibility of the State government operating

through a State Department of Public Assistance, with County Departments of Public Assistance serving as its agents. The State Department issued rules and regulations for the administration of General Assistance as well as for the administration of the Old-Age Assistance, Aid to Dependent Children and Aid to the Blind programs. The State Department also established maximum assistance allowances for the various areas of the State.

Although the County Boards were nominally given considerable authority, in practice they merely served to carry out the decisions of the State Department. They consisted of five or seven citizens serving without remuneration and holding no other official position. They selected their Executive Directors from among those certified by the State Department as qualified on the basis of an examination. They were responsible for the appointment of all personnel to administer public assistance in the counties; but this duty consisted only of the selection of the most eligible of three persons referred for each job from the Civil Service lists. Since the State government financed the entire public assistance program, including the General Assistance program, with no contribution from the local units of government, the County Departments tended to let the State Department control the administration of the program. After the initial period of enthusiasm passed, the County Boards tended to sit back and let matters take their course. State rules and regulations were generally adopted verbatim; and the Executive Directors had little guidance from the County Boards and looked to the State Department for direction. Although there were many exceptions, the County Boards generally found a simple solution to all pressing problems by passing resolutions that were sent on to the State Department for action.

The failure of the County Boards to adapt State Department rules and regulations to local conditions was evident in the policies regarding the standards of General Assistance. The maximum assistance allowances established by the State Department were adopted uniformly as the criterion of eligibility and as minimum assistance standards. Only where outside income was available or where expenditures for any specific item were lower than the maximum assistance allowance, reflecting reduced need, were the allowances reduced below the maximums. These maximum assistance allowances were adopted in 1936 and were based on the recommendations of nutritionists and physicians to the State Department. They provided uniform allowances for food and clothing for families of a given size and only four breakdowns for fuel and three for rent, resulting in eight different schedules of total maximum allowances, each applicable to a different group of counties. There is serious question as to the appropriateness of the relief standards provided by the maximum assistance allowances to some areas and to some cases in the State. Since all the funds were provided by the State government, it was difficult for the County Boards to reduce these standards for their own counties. The County Boards did not modify these maximum assistance allowances to meet local conditions. There also is evidence that the relationship between the State Department and the County Boards was not entirely satisfactory and that the existing set-up did not evoke the necessary cooperation from local governments.

Pennsylvania's system of central responsibility for General Assistance involved the practical elimination of local government from this function or, at least, its reduction to an advisory status. This may be regarded as a small price to pay for the greater efficiency of administration achieved under central respon-

sibility. On the other hand, the difficulty of achieving flexible policies, so that standards may be indigenous to the local community, may indicate the desirability of stronger local participation in this function.

In Massachusetts, local responsibility for General Relief, or Temporary Aid, as it is called, provided a great diversity of practices and standards. The jurisdiction of the State agency was limited to responsibility for unsettled cases. However, General Relief was administered by the same local agencies that administered the categorical assistance programs under the supervision of the State Department. It is possible that, under these circumstances, the supervisory influence of the State Department will be felt by the General Relief program. To what extent this influence will affect the administration and standards of General Relief is difficult to determine. Some improvement in local administration seems to be called for. It seems unlikely, however, that the formulation of policy will be greatly affected. This program was regarded as a local responsibility and was financed entirely out of local funds (including the State-administered, locally-shared income tax). The pattern of General Relief in Massachusetts reflected the traditional emphasis upon local government in this State and provided considerable flexibility in General Relief policies and standards. Although some of the larger cities adopted such policies as the budgetary deficiency method of determining allowances, most of the local units, and especially the small, rural units varied their allowances at will after consideration of a multiplicity of factors in addition to the nutritional and physical requirements of the case.

Illinois' system of joint responsibility for General Relief reflected an attempt to utilize the financial and supervisory

assistance of the State government along with a considerable degree of local administrative responsibility and a local financial contribution. As a reaction to central (State) responsibility, administration was transferred from a State agency to 1455 local agencies in 1936; but since that time supervisory authority has been placed with the State Agency. The local financial contribution was limited to the proceeds of a general property levy of 30 cent per \$100 assessed valuation. All other funds were provided by the State. The difficulties of estimating local relief requirements under these arrangements made the equitable allocation of State relief funds well nigh impossible. The State agency was in no position to know whether all those on the relief rolls were eligible. To determine this would have required extensive administrative control. As was to be expected, therefore, investigation revealed the existence of numerous ineligible persons on the rolls. Furthermore, the State agency could not be sure that existing relief standards were appropriate. These standards were determined locally, but the local financial contribution was fixed; and this provided a stimulus to raise standards since the funds were provided by the State government. As a result, only crude estimates of relief requirements were available upon which allocations of funds were based.

A review of the distribution of Federal and State funds among the counties of Illinois in 1938-39 indicates considerable equalization of relief burdens, that is, the distribution of relief funds in accordance with the percentage of population on relief. However, this equalization tended to be offset by the nature of the taxes imposed for relief purposes by the State government. State Sales Tax collections tended to bear a direct relationship to relief burdens.

It is difficult to determine the effects of the distribution of State relief funds. Relief standards were undoubtedly raised; but whether these standards were appropriate or not cannot be determined. In some units relief standards were higher than the earnings of independent families for some types of cases; but this may be attributed to the budgetary deficiency method of computing relief allowances as much as to any artificially high relief standards. Still, the relief standards established by local officials varied greatly throughout the State. If the flexibility of local administration is to be retained, correction of the present method of financing the burden seems to be called for.

In attempting to determine an appropriate division of responsibility for any one function, such as unemployment relief, it is necessary to bear in mind the existing division of responsibility for all other functions of government and the revenue resources available to each level of government. In 1938 all three levels of government contributed financially to almost all the major functions of government. About 12 per cent of all governmental expenditures was transferred from the level of government collecting the revenue to another level of government for expenditure. Almost all of these transfers were from Federal and State agencies to local agencies by means of grants-in-aid or shared revenues, and the local governments administered the expenditure of these funds under varying degrees of supervision.

Although the basis of distribution varied for each function, the general pattern of revenue collection by the Federal and State governments and expenditure by the local governments seems to be a desirable one. The resources of Federal and State governments are more extensive and, generally, involve more equitable levies than local sources of revenue. In addition, Federal revenue

collection permits the coordination of fiscal policy with monetary policy. Local administration of expenditure might be expected to provide necessary flexibility in the performance of functions and adaptation to local conditions.

The basis of transferring Federal and State funds to the local units provides a perplexing problem. At present, the basis of distribution differs for each function. It is possible, however, that an over-all basis of distributing Federal and State funds would be more equitable and satisfactory. For this purpose, however, greater co-ordination of the fiscal structures of the three levels of government and an increase in available statistical data would be required. It would then be possible to avoid inconsistent action such as the absence of equalization in revenue collection offsetting equalization in the distribution of funds.

On what basis should this over-all transfer of funds be made? The suggestion that Federal funds be allocated on the basis of source of collection provides one answer to this problem.¹ The Federal government would serve as a collection agency and would allocate the funds to the States on the basis of source of collection. It is also possible, but more difficult, to allocate Federal funds for specific purposes or under specific conditions, at the same time co-ordinating the allocations for all functions. This might involve undue influence in the administration of these functions, depending, of course, upon the conditions established. Objection has been made to the use of conditional grants-in-aid in the distribution of large sums of money because this would involve Congress in an indefinite struggle over the purposes and the bases of distributing the conditional grants.²

¹ Henry J. Simons, Personal Income Taxation (Chicago: The University of Chicago Press, 1936), pp. 216-218.

²Ibid.

Another suggestion involves the use of per capita income as the basis of distribution for Federal-State variable grants.¹ In addition to involving equalization of burdens, severe criticism has been leveled at the use of per capita income as the basis of distribution and at the use of population as a measure of need.² Whatever the merits of the various proposals, a final decision should be made only after an intensive analysis of the many problems involved. With respect to unemployment relief, State and local sharing of Federally-administered revenues seems to be desirable. During a serious depression, the resources of all three levels of government may be required for the purpose. The greater the reliance upon Federal revenues, the better the chances of utilizing equitable sources of revenue and of coordinating fiscal with monetary policy. Serious objections to Federal administration exist, at least, on the basis of the experience of the past decade. Unfortunately, no satisfactory criteria exist for allocating funds for this function to the States and local units. Eligibility for relief can be satisfactorily determined only by the unit responsible for administration. Appropriate relief standards can only be established with respect to conditions in a local community, including the financial resources available to the community from all sources.

Undoubtedly, some over-all estimate of relief requirements and total financial requirements would have to be made for the nation at large and funds provided and allocated among the States for the purpose. If these allocations were based on source of collection, each State would tend to receive funds proportionate

¹P. H. Wueller, "Income and the Measurement of the Relative Capacities of the States," Studies in Income and Wealth (New York: National Bureau of Economic Research, 1939), III, 437-449.

²Cf. discussion of above article by Cohn, Dulles, Groves, Keith, Martin, Neisser, Freedman and Wueller in ibid., pp. 450-470.

to its contributions. Some States might find these inadequate for their requirements and might provide additional funds from State-collected sources. The States could then allocate these funds among their local units on the basis of source of collection. Those local units receiving insufficient funds would provide a lower level of services or provide additional funds collected locally. This would tend to place uneconomic units at a disadvantage and might provide a stimulus toward consolidation and elimination of unnecessary units of government. At least, the units in distress would be easily discernible.

Should it be desired to equalize burdens, an over-all allocation would permit the avoidance of inconsistencies. The State and local units in distress would be known, and assistance could be provided on an over-all basis. In fact, some attempt may be made to examine fundamental problems and to seek a fundamental solution to the problems confronting the States or local communities found to be in distress.

Of the three States studied, Massachusetts came closest to this method of dividing responsibility. State-collected income taxes were allocated among the local units on a source-of-collection basis. These funds were thereafter regarded as local funds and could be used for relief or for any other purpose. Additional funds were provided by local borrowing. Local responsibility was recognized, and present tendencies point to "educational" supervision by the State Department of Public Welfare. Although no equalization of burdens was attempted, local units in financial distress came in for special attention. Special Commissions were appointed by the State legislature to inquire into conditions in these communities and recommend solutions to their problems.¹

¹Cf. Howard G. Fishback, "A Financial Dictatorship for Fall River," National Municipal Review, XX (April, 1931), 201-205.

These Commissions were concerned with local financial management and with fundamental economic conditions in the distressed communities.¹

Federal-State relationships in unemployment relief in Massachusetts were unlike State-local relationships. However, it is not unlikely that Federal-State relationships on an over-all allocation basis might be more satisfactory than those in operation in the State during the nineteen thirties. A work-relief program could be made a part of the relief program and could be subordinated to the relief aspects of the program, as was the case under the FERA work-relief programs in other States. Unless national policy required emphasis on a work program, it would be best to leave the decision in this matter to the States and local units. In fact, under the proposed program all major decisions of relief policy would be the responsibility of the local units. Relief standards could be established locally, so as to reflect local conditions, within the limits of the funds available. If necessary, local funds in addition to those provided by the Federal and State governments could be utilized or State funds could be used for equalization purposes in extreme cases. Inefficient local administration would be costly to the local community, but a State agency could provide supervisory assistance in the form of educational activity wherever necessary. Likewise, Federal agencies might be established to serve in the same relation to the States as the States would to the local units. Under this program, the financial resources of all three levels of government could be utilized, but responsibility for administration would rest with the local community.

¹ Mention should be made of the satisfactory fiscal relationships existing generally between the State and the local governmental units. Cf. Royal S. Van De Woestyne, State Control of Local Finance in Massachusetts (Cambridge: Harvard University Press, 1935).

War-time changes in fiscal structure seem to lend added weight to the proposed program. The tremendous increase in Federal taxes for military purposes and the anticipated changes in the fiscal structure of the States, resulting from the elimination of certain commodities, e.g., gasoline, motor vehicles, etc., from the excise tax base, point to the need for a reorientation of fiscal policy and a change in fiscal structure. Four major methods of meeting the new situation are available. First, the States can increase tax rates on existing bases or levy taxes on new bases. Second, functions may be discontinued or transferred from the State and local governments to the Federal government. Third, funds collected by the Federal government through taxation and/or borrowing may be distributed among the States. Finally, some combination of these three methods may be utilized.

No effort has been made as yet (March, 1942) to utilize the first method, chiefly, no doubt, because income and consumption has been increased rather than curtailed and the effect of the war program up to this point has been to increase rather than to decrease state tax revenues. Furthermore, the current Federal tax program will undoubtedly provide for heavy increases in the rates of all existing taxes and, perhaps, the addition of new excise taxes. It will be possible, of course, for the States to increase tax rates to compensate for loss of part of the tax revenue. However, since Federal and State taxes have come to rest more and more on the same tax bases, the greater the increase in Federal taxes the more difficult will it be for the States to increase their revenues.

Changes in the number and scope of governmental functions may be expected to effect changes in the fiscal structure of the country. Federal functions related to the war program may be ex-

pected to effect changes in the fiscal structure of the country. Federal functions related to the war program may be expected to increase, and decreases in some Federal activities, such as relief, may also be expected. State and local expenditures for functions such as highways and public assistance may be expected to decline, with the curtailed use of automobiles and consequent decreases in gasoline and motor-vehicle taxes and the decreased need for public assistance. On the other hand, increased State and local expenditures may be expected for such functions as civilian defense, public health, and other activities related to the war program. It is not unlikely that some transfer of functions among the levels of government may take place. Already the Federal government has taken over complete responsibility for the Employment Service, and increased Federal control over Unemployment Compensation has been attempted as a war-time measure.¹ The pressure for Federal sharing of responsibility for General Relief has increased.² The war program has affected almost all governmental functions in one way or another. The difficulty of distinguishing between war and peace-time activities in modern "total" war has made this trend inevitable. Nevertheless, while considerable centralization of authority is inevitable in war-time, it seems desirable to review each function carefully to determine the proper division of responsibility.

¹U. S. Congress, House of Representatives, H.R. 6559 and Hearings Before the Committee on Ways and Means on H.R. 6559. A Bill to Provide for Certain War-Displacement Benefits, Training Wages, and Travel Allowances in Connection with the National War Effort, February 11-17, 1942, (Washington: Government Printing Office, 1942). This Bill was defeated.

²Federal Security Agency, Office of the Director of Defence Health and Welfare Services, Family Security Committee, Brief in Support of Recommendation in Favor of a Category of General Public Assistance to be Added to the Social Security Act, September, 1941, (Washington, 1941).

Reallocation of functions and revenues may well call for a closer integration of the fiscal structures of Federal, State and local governments. If the existing or additional functions of State and local governments are to be continued, and adequate revenue sources are not provided for their use, it will be necessary to transfer Federally-collected funds to the States. This method provides an excellent opportunity to achieve co-ordination of the fiscal structures of Federal, State and local governments. If the existing or additional functions of State and local governments are to be continued, and adequate revenue sources are not provided for their use, it will be necessary to transfer Federally-collected funds to the States. This method provides an excellent opportunity to achieve co-ordination of the fiscal structures of the three levels of government. Nor should the enthusiasm engendered by the war be overlooked for this purpose. The tendency to take a "national" point of view and the willingness to sacrifice local interests may well be utilized for this purpose. Changes in revenue sources, reallocation of functions, and interlevel transfers provide valuable tools for effecting reforms long overdue.

Unfortunately, in some fields, in place of fundamental reforms, the trends of recent years, both good and bad, have been accelerated. Such seems to be the case with respect to unemployment relief. Despite great pressure within and without Congress¹ for the abolition of Federal relief agencies, these agencies continue to exist, albeit in the guise of semi-defence agencies. The defence activities of these agencies might well be performed

¹See the reports of the National Economy League, especially WPA or Defence and "Local Governments and WPA," The Watch Dog, VII (December, 1941), pp. 8-9.

by other Federal agencies as part of the war program and, perhaps, more efficiently through the use of labor secured in the open market rather than by relief labor.¹ There seems little reason why the relief aspects of these agencies could not be turned over to the States and local units of government. If necessary, Federal funds could be transferred to the States, preferably as part of a coordinated fiscal program among the three levels of government. It is difficult to believe that the continued existence of the Federal relief agencies does not reflect, in part, the tendency for governmental agencies to perpetuate themselves. It must be admitted, however, that there is strong support in the country for continued central responsibility for unemployment relief.²

Insofar as the relationships between the States and local governmental units are concerned, a re-examination of functions and sources of revenue should also be welcome. Allocation of Federal and State funds among the local units on a source of collection basis would seem to provide a satisfactory guiding principle, but provision could be made for stimulating certain activities or equalizing burdens wherever necessary. However, equalization should be undertaken on an over-all basis with due regard for all the functions and resources of the local unit. Stimulation of activities, where desired, should be undertaken with extreme care to preserve the advantages of local government.

¹Some criticism has been directed against the Federal relief agencies for utilizing relief labor for defence activities, since wage-rates that would have to be paid in the open market would exceed WPA wage-rates. However, this argument may be regarded as invalid because, if higher wage-rates were available to WPA workers in the open market, it may be assumed that they would be accepted.

²Edith Abbott, "Work or Maintenance: A Federal Program for the Unemployed," Social Service Review, XV (December, 1941), 520.

Unemployment relief must be viewed as one among many functions of government, any one of which cannot be performed properly without regard to its effect on other functions, on the governmental structure, and on the economy as a whole. The appropriate division of responsibility seems to call for basic local responsibility for administration, including the establishing of relief standards adapted to the requirements of the community. Supervisory activity on the part of State and Federal agencies might well be directed to "educational" activity--to improving administrative practices and making available over a wide area the experience acquired in the local units.

Financial responsibility must be considered in the light of the fiscal structure of the three levels of government. State and local tax resources can be made available or Federal funds can be allocated unconditionally on a source-of-collection basis. Equalization for unemployment relief alone should be avoided but, if desired, equalization may be undertaken on an over-all basis. In such cases, a thorough investigation should be undertaken to uncover fundamental defects and to apply fundamental remedies, including, perhaps, the amalgamation of local units of government. Conditional grants for relief should be avoided because of the impossibility of determining appropriate relief standards or relief requirements. However, conditions requiring emphasis on public works as a part of, but subordinate to, the relief program can be introduced where this is deemed desirable. Any attempt to determine the precise method or formula for dividing financial responsibility without regard for the fiscal structures of the three levels of government cannot be expected to prove successful. The choice between releasing local tax sources for the purpose by transferring functions to other units, or providing increased funds

for other functions now a charge on these tax sources and the allocation of Federal and State funds as part of a general program of sharing, can only be made through analysis of the existing fiscal system. However, the method of financing should provide sufficient financial incentive to assure autonomous local action and to preserve local interest.

